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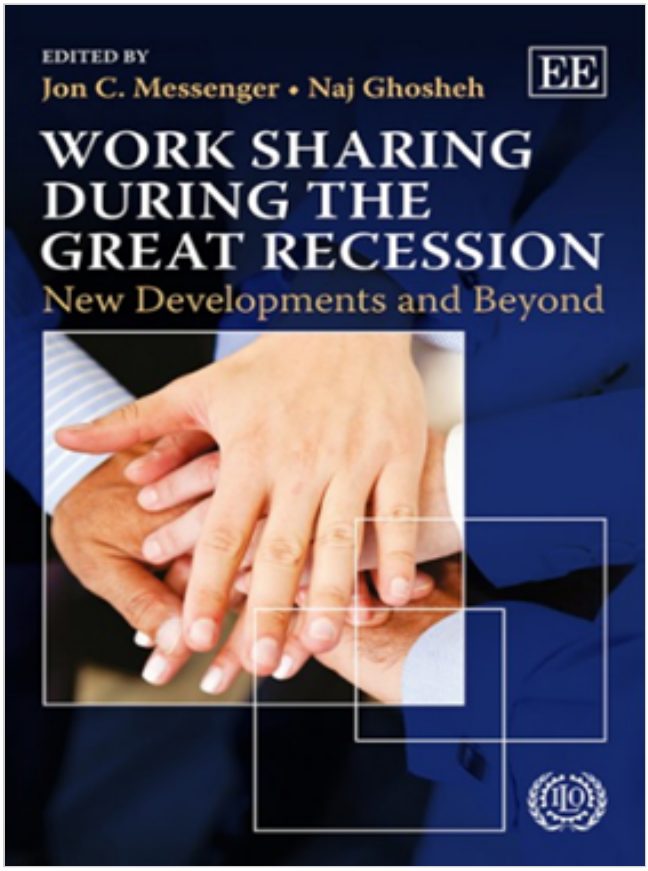
Work sharing: reducing unemployment in good times and bad

There is a tradeoff between the number of working hours per worker and the number of job positions available. This intuition underlies a labor market policy known as “work sharing,” which may take the form of either a temporary job-preservation measure during an economic crisis or a permanent job-creation tool aiming to increase the employment level in all stages of the business cycle. In contractionary periods, the “crisis” form of work sharing encourages firms to reduce per capita working hours rather than reduce employment levels in the face of declining output. In expansionary periods, the “permanent” form of work sharing promotes reductions in the standard workweek or in nonstandard working hours with the goal of increasing total employment. In *Work Sharing During the Great Recession: New Developments and Beyond*, editors Jon C. Messenger and Naj Ghosheh discuss both forms of work sharing, present eight case studies of crisis work sharing during the Great Recession, offer an empirical look at the potential for work sharing in the United States, and summarize policy implications for work-sharing programs.



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Both the temporary and the permanent forms of work sharing seek to reduce unemployment by addressing the cyclical and structural factors that stifle job growth. Crisis work sharing allows firms to cut labor costs without layoffs and has been implemented primarily, but not exclusively, in the manufacturing and construction sectors of various economies. This increased worker retention during economic contractions curbs employer administrative costs associated with staff turnover, keeps functioning plants in operation, and boosts morale by avoiding layoffs. At the same time, linked training programs help maintain skilled workforces. Permanent work sharing intends to raise the steady-state employment level, thus promoting the

wellbeing of overworked and overemployed workers while simultaneously providing job security for those most vulnerable to termination.

According to the authors of *Work Sharing*, however, the observed effect on employment may not be so straightforward. The neoclassical economic view suggests that output must decline as a result of the shock to working hours, and employment levels may even decrease. The Keynesian perspective predicts that total spending and output would not decrease, but the composition of output across industries may change. Indirect effects and other factors, such as labor indivisibility, fixed labor costs and underutilized labor capacity, overtime leakage, skill shortages and mismatches, and productivity offset, may all jointly determine the observed net effect on employment. Deadweight loss and displacement effects—namely, the crowding out of new businesses by inefficient ones—present concerns for policymakers and may need to be addressed through eligibility criteria and program limitations.

In light of these insights, the real-world case studies presented in the book offer wide-ranging results. During the Great Recession, the crisis form of work sharing was put into effect in several countries, each with its own unique method of implementation. These crisis work-sharing programs are discussed for Germany, Austria, Belgium, France, the Netherlands, Japan, Turkey, and Uruguay. Eligibility criteria were an especially strong determinant of how intensively a country's work-sharing program was used by struggling firms, as various eligibility mechanisms determined which firms and workers were permitted to enroll. The most influential aspect of eligibility criteria may have been the speed of the approval process to participate in a work-sharing program. Other differences among work-sharing programs involved the extent of reduced hours and earnings, wage supplementation, time limits and other checks to deadweight loss and displacement effects, and the role of training programs. *Work Sharing* finds that while Germany may have been the epicenter of work-sharing labor policies, the employment effect of such policies during the Great Recession—effect defined as the number of jobs saved—was greatest in absolute terms in Japan and in percentage terms in Belgium. These metrics, however, may neglect the role of overtime reductions and drawing down workers' time-credit balances as key drivers of the German labor market resilience known as the "German jobs miracle."

Work Sharing also considers the compatibility of the U.S. economy with work-sharing labor market policies. Some aspects of the U.S. slow recovery from the Great Recession, which has been characterized as a "jobless recovery" with a high incidence of involuntary part-time employment, suggest that employers used an informal work-sharing adjustment in response to the crisis. This is also evident in cuts to the workweek of temporary workers and a drop in manufacturing overtime hours. Several U.S. states had small work-sharing and short-time compensation programs in place even before the recession. It is employment, however, that primarily bears the adjustment burden during U.S. recessions. Could expanded work-sharing programs promote faster job recovery in the United States following an output shock?

Using Current Employment Statistics (CES) data from the U.S. Bureau of Labor Statistics (BLS) and impulse-response analysis, the authors find that work sharing may promote U.S. manufacturing employment in both economic contractions and subsequent recovery periods. Vector autoregression estimation considers the impulse response of manufacturing employment to simultaneous shocks to output, hours, and/or wages. In the case of a negative shock to output and a simultaneous negative shock to hours in durables manufacturing, there is evidence of an employment-creation effect when wages are protected from a proportional downward adjustment. The benefits of work sharing during an economic downturn, however, are less visible in the nondurables manufacturing

sector. In the case of a positive shock to output, the nondurables sector does see slight employment increases with hours reductions, but this benefit is not seen in the durables sector. The data support the case for work sharing in the durables manufacturing sector during economic downturns, and in the nondurables manufacturing sector during economic upturns. More broadly, this insight suggests that a nuanced use of work sharing to promote employment should be carefully applied in the United States, in full consideration of an economic sector's unique behavior.

Having reviewed various work-sharing programs implemented during the Great Recession and the U.S. case, *Work Sharing* puts forth several implications for public policy. Eligibility criteria for participating in work-sharing programs must be restrictive enough to mitigate deadweight loss and displacement effects, but not so burdensome as to discourage struggling firms from applying to participate. It is also crucial for work-sharing programs to allow flexibility in the magnitude and type of hours reductions that a firm can make. Wage supplementation, which may take several forms, is essential for partially offsetting the reduction in workers' earnings and supporting aggregate demand. Time limits on work-sharing subsidies are also critical to an effective and efficient work-sharing program. If training programs are part of a country's work-sharing program, better integration with crisis work-sharing programs may make retraining programs more successful and more widely used.

Work Sharing was an interesting and enjoyable read. This thoughtful empirical book dissects the use of the work-sharing policy tool during the most significant economic contraction in recent history. I recommend this book for labor economics enthusiasts, those with a strong statistical background, and those interested in seeing an application of BLS data in academic research.